

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Davison</b>	County <b>Genesee</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>9/21/05</b>	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

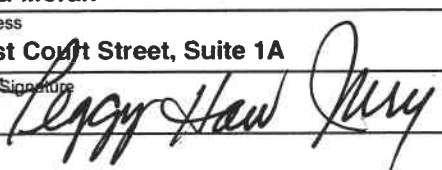
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) <b>Plante &amp; Moran</b>			
Street Address <b>111 East Court Street, Suite 1A</b>		City <b>Flint</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>48502</b>	Date <b>12/21/05</b>

**Annual Financial Report**

**City of Davison  
Davison, Michigan**

**June 30, 2005**

**with *Independent Auditors' Report***

**City of Davison  
Annual Financial Report  
For the Fiscal Year Ended June 30, 2005**

**Table of Contents**

	<u>Page</u>
Introductory Section:	
List of Elected and Appointed Officials .....	1
Financial Section:	
Report of Independent Auditors .....	2-3
Management's Discussion and Analysis .....	4-9
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets .....	10-11
Statement of Activities .....	12-13
Fund Financial Statements:	
Balance Sheet Governmental Funds .....	14
Reconciliation of the Fund Balance as Reported in the Governmental Balance Sheet to the Statement of Net Assets .....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	17
Statement of Net Assets – Proprietary Funds .....	18-19
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds .....	20
Statement of Cash Flows – Proprietary Funds .....	21
Statement of Assets and Liabilities – Fiduciary Funds .....	22
Notes to the Basic Financial Statements .....	23-47
Required Supplementary Information Section:	
Analysis of Funding Progress .....	48
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Budgetary Basis) General, Major Street, and Local Street Funds .....	49-52

**City of Davison  
Annual Financial Report  
For the Fiscal Year Ended June 30, 2005**

**Table of Contents – (continued)**

	<u>Page</u>
Combining Fund Statements and Fund Descriptions:	
Fund Descriptions.....	53-54
Combining Statements:	
Combining Balance Sheet – Nonmajor Governmental Funds .....	55-56
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds .....	57-58
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Nonmajor Special Revenue Funds .....	59
Combining Balance Sheet – Agency Funds.....	60

## Introductory Section

**Annual Financial Report  
City of Davison, Michigan  
June 30, 2005**

**List of Elected Officials**

**Mayor**

**Frederick R. Rappuhn**

**City Council**

**Patricia Conley  
Ronald D. Emery  
James Hansen  
Jack C. Somers  
Gary Hale, Mayor Pro-tem  
Donald Csutoras**

**Appointed Officials**

**Peter Auger, City Manager  
Cynthia VanMegroet, Treasurer  
Cynthia L. Payton, Clerk  
William P. Brandon, Police Chief  
Dennis Miller, Building Official  
Scott Yaklin, DPW Director  
Colleen Hackney, Community  
Development Director**

## Financial Section

*Independent Auditors' Opinion*

To the Honorable Mayor and the City Council  
City of Davison, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Davison as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Davison's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Davison as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 4 through 9 and the information in the required supplemental information section on pages 48 through 52 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The introductory section and the combining and individual nonmajor fund financial statements presented on pages 53 through 60 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



In accordance with Government Auditing Standards, we have also issued our report dated September 21, 2005 on our consideration of the City of Davison's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

*Plante & Moran PLLC*  
September 21, 2005

## **Management's Discussion and Analysis**

## **City of Davison Management's Discussion and Analysis**

This section of the City of Davison's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the City's financial statements, which follow this section.

### **Financial Highlights**

- The City's Total Net Assets are \$10,504,571.
- During the year, the City's expenses were \$391,578 less than the \$3,558,690 generated in taxes, other revenues and other financing sources for governmental programs.
- The City's over-all unrestricted net assets are \$4.0 million.
- General fund expenditures exceeded revenues by \$49 thousand before operating transfers out. After operating transfers of \$35 thousand, the net decrease in fund balance was \$84 thousand leaving the General Fund with a fund balance of \$1.4 million.

### **Overview of the Financial Statements**

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for non major governmental funds. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
  - \* The governmental fund statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.
  - \* Proprietary fund statements offer short- and long-term financial information about the activities that the government operates like businesses, such as the water and sewer system.
  - \* Fiduciary fund statements provide information about agency financial relationships.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our nonmajor governmental funds, each of which are added together and presented in single columns in the basic financial statements.

Table 1 (below) summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Table 1 - Major Features of the City of Davison's  
Government-wide and Fund Financial Statements**

<b><u>Type of Statements</u></b>	<b><u>Government-wide</u></b>	<b><u>Governmental Funds</u></b>	<b><u>Proprietary Funds</u></b>	<b><u>Fiduciary Funds</u></b>
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary, such as police, fire, and parks	Activities the City operates similar to private businesses: the water and sewer system, and the parking facilities	Instances in which the City is the agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary assets and liabilities</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term, the City's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

### **Government-wide Statements**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's roads.

The government-wide financial statements of the City are divided into three categories:

- **Governmental activities** – Most of the City's basic services are included here, such as the police, fire, public works, and parks departments and general administration. Property taxes and state and federal grants finance most of these activities.
- **Business-type activities** – The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer system are included here.
- **Component units** – The City includes two other entities in its report – the Downtown Development Authority and the Local Development Finance Authority. Although legally separate, these "component units" are important because the City is financially accountable for them. Separately issued financial statements are available at City Hall for both these component units.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has three kinds of funds:

- **Governmental funds** – Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between the two sets of statements.
- **Proprietary funds** – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
- In fact, the City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

- We use internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the City's other programs and activities – such as the City's Equipment Fund.
- Fiduciary funds – All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

## The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

### Summary Condensed Statement of Net Assets

	Governmental Activities		Business- type Activities		Total	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current assets	\$3,721,710	\$3,649,549	\$ 2,514,359	\$3,510,682	\$ 6,236,069	\$ 7,160,231
Noncurrent assets:						
Restricted assets	-	-	1,364,868	725,231	1,364,868	725,231
Capital assets	2,974,190	2,346,319	8,352,042	5,494,844	11,326,232	7,841,163
<b>Total assets</b>	<b>6,695,900</b>	<b>5,995,868</b>	<b>12,231,269</b>	<b>9,730,757</b>	<b>18,927,169</b>	<b>15,726,625</b>
Current liabilities	731,908	514,111	512,970	687,142	1,244,878	1,201,253
Long-term liabilities	477,739	387,075	6,699,981	4,268,870	7,177,720	4,655,945
<b>Total liabilities</b>	<b>1,209,647</b>	<b>901,186</b>	<b>7,212,951</b>	<b>4,956,012</b>	<b>8,422,598</b>	<b>5,857,198</b>
<b>Net assets:</b>						
Invested in capital assets- net of related debt	2,486,240	1,806,319	1,342,061	1,015,974	3,828,301	2,822,293
Restricted	1,158,048	1,214,990	1,492,613	1,413,956	2,650,661	2,628,946
Unrestricted	1,841,965	2,073,373	2,183,644	2,344,815	4,025,609	4,418,188
<b>Total net assets</b>	<b>\$5,486,253</b>	<b>\$5,094,682</b>	<b>\$ 5,018,318</b>	<b>\$4,774,745</b>	<b>\$10,504,571</b>	<b>\$ 9,869,427</b>

Governmental activities have total net assets of \$5,486,253.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations decreased by \$231,408 for the governmental activities. This represents a decrease of approximately 11 percent. The current level of unrestricted net assets for our governmental activities stands at \$1,841,965, or about 58 percent of expenditures.

## Summary Condensed Income Statement

	Governmental Activities		Business- type Activities		Total	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenue:						
Program revenue:						
Charges for services	\$ 621,912	\$ 892,699	\$1,640,960	\$1,482,654	\$ 2,262,872	\$2,375,353
Operating grants and contributions	418,570	353,654	103,675	32,875	522,245	386,529
Capital grants and contributions	326,598	89,798	-	-	326,598	89,798
General revenue:						
Property taxes	1,421,414	1,510,360	-	-	1,421,414	1,510,360
State-shared revenue	616,154	624,615	-	-	616,154	624,615
Interest	86,566	42,973	63,515	41,441	150,081	84,414
Unrestricted earnings	67,476	-	-	-	67,476	-
Total revenue	3,558,690	3,514,099	1,808,150	1,556,970	5,366,840	5,071,069
Program expenses:						
Legislative	19,852	21,691	-	-	19,852	21,691
General government	622,607	577,446	-	-	622,607	577,446
Public safety	1,307,935	1,384,421	-	-	1,307,935	1,384,421
Public works	971,761	1,016,498	-	-	971,761	1,016,498
Recreation and culture	225,188	235,913	-	-	225,188	235,913
Interest on long-term debt	19,769	30,519	-	-	19,769	30,519
Water and sewer	-	-	1,564,577	1,297,041	1,564,577	1,297,041
Total program Expenses	3,167,112	3,266,488	1,564,577	1,297,041	4,731,689	4,563,529
Change in net assets	391,578	247,611	243,573	259,929	635,151	507,540
Net assets – beginning of year	5,094,675	4,847,071	4,774,745	4,514,816	9,869,420	9,361,887
Net assets – end of year	\$5,486,253	\$5,094,682	\$5,018,318	\$4,774,745	\$10,504,571	\$9,869,427

### Governmental Activities

The City's total governmental revenues increased by approximately \$44,591, despite decreases in state-shared revenue and interest income. The increase, which represents 1.2 percent, was primarily due to the continuing state grant for a trailway.

Expenses decreased by about \$99,376 during the year.

### Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund.

## **The City's Funds**

Our analysis of the City's major funds begins on page 14, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2005 include the General Fund, Major Streets and Local Streets.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$1,213,586 in 2005. Police services are partially supported by a special public safety millage.

## **Capital Assets**

At the end of 2005, the City had invested approximately \$3.8 million in capital assets, net of related debt. Capital assets as stated in this annual financial report do not include some prior year infrastructure items such as sidewalks and streets. Financial reporting in past years has not required some infrastructure items to be included with capital assets. Recognizing the problem of having cities gather together all of the required information, GASB has allowed cities to comply with this portion of Statement 34 prospectively. Additional information on the City's capital assets can be found in Note IV C of this report.

## **Long-term Debt**

At year-end the City had \$488 thousand in bonds and notes outstanding for governmental activities and \$7 million in bonds and notes outstanding for business type activities.

## **Economic Factors and Next Year's Budgets and Rates**

The unemployment rate in Genesee County was 9.1% for fiscal year 2005. The inflation rate for use in the 2005 capped value formula, and the 2004 "Headlee" millage reduction fraction formula was 3.2%. The capped value and the Headlee millage reduction are key elements in determining property tax revenues.

## **Contacting the City's Financial Administration**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Davison, 200 E. Flint Street, Davison, Michigan 48423.



## Basic Financial Statements

## **Government-wide Financial Statements**

**City of Davison**  
**Statement of Net Assets**  
**June 30, 2005**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and equivalents	\$ 1,220,039	\$ 1,002,994	\$ 2,223,033
Investments	1,953,219	934,697	2,887,916
Receivables	53,172	264,995	318,167
Due from component units	61,725	-	61,725
Due from other governments	694,217	-	694,217
Internal balances	(264,176)	264,176	-
Inventory	3,514	19,981	23,495
Restricted assets:			
Cash and cash equivalents	-	1,364,868	1,364,868
Other assets	-	27,518	27,518
Capital assets (not depreciated)	1,518,252	-	1,518,252
Capital assets (net of accumulated depreciation)	1,455,938	8,352,042	9,807,980
<b>Total assets</b>	<b>6,695,900</b>	<b>12,231,271</b>	<b>18,927,171</b>
<b>Liabilities</b>			
Accounts payable	224,574	22,579	247,153
Accrued liabilities	109,097	1,987	111,084
Deposits	-	3,560	3,560
Due to primary government	-	-	-
Due to other governments	150,402	-	150,402
Retainer payable	22,835	174,846	197,681
Noncurrent liabilities:			
Due within one year	225,000	310,000	535,000
Due in more than one year	477,739	6,699,981	7,177,720
<b>Total liabilities</b>	<b>1,209,647</b>	<b>7,212,953</b>	<b>8,422,600</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	2,486,240	1,342,061	3,828,301
Restricted for:			
Street maintenance and construction	699,102	-	699,102
Debt service	378,246	-	378,246
Capital projects	61,639	1,492,613	1,554,252
Other purposes	19,061	-	19,061
Unrestricted	1,841,965	2,183,644	4,025,609
<b>Total net assets</b>	<b>\$5,486,253</b>	<b>\$5,018,318</b>	<b>\$10,504,571</b>

*See notes to financial statements.*

<u>Component Units</u>	
<u>Downtown Development Authority</u>	<u>Local Development Finance Authority</u>
\$ 64,620	\$ 147,596
-	-
-	-
-	-
-	-
-	-
-	-
-	-
5,028	5,001
-	-
9,904	-
<u>79,552</u>	<u>152,597</u>
2,618	1,000
-	-
-	-
56,245	5,480
-	-
-	-
-	-
-	-
<u>58,863</u>	<u>6,480</u>
9,905	-
-	-
-	-
-	-
-	-
<u>10,784</u>	<u>146,117</u>
<u>\$ 20,689</u>	<u>\$146,117</u>

**City of Davison  
Statement of Activities  
For the Year Ended June 30, 2005**

Functions\Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
<b>Primary government:</b>			
Governmental activities:			
Legislative	\$ 19,852	\$ -	\$ -
General government	622,607	315,474	-
Public safety	1,307,935	42,008	400
Public works	971,761	216,078	418,170
Recreation and culture	225,188	48,352	-
Interest on long-term debt	19,769	-	-
Total governmental activities	3,167,112	621,912	418,570
Business-type activities:			
Sewer	728,811	718,708	47,300
Water	835,766	922,252	56,375
Total business-type activities	1,564,577	1,640,960	103,675
Total primary government	\$ 4,731,689	\$ 2,262,872	\$ 522,245
<b>Component units:</b>			
Davison Downtown Development Authority	\$ 107,831	\$ -	\$ 2,485
Davison Local Finance Development Authority	26,159	-	2,102
Total component units	\$ 133,990	\$ - 0 -	\$ 4,587
<b>General revenues:</b>			
Property taxes			
State shared revenues			
Unrestricted earnings			
Unrestricted investment earnings			
Total general revenues			
<b>Change in net assets</b>			
Net assets - beginning			
Net assets - ending			

See notes to financial statements.

**Net (Expense) Revenue and Changes in Net Assets**

Capital Grants and Contributions	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority	Local Development Finance Authority
\$ -	\$ (19,852)	\$ -	\$ (19,852)	\$ -	\$ -
-	(307,133)	-	(307,133)	-	-
-	(1,265,527)	-	(1,265,527)	-	-
16,843	(320,670)	-	(320,670)	-	-
309,755	132,919	-	132,919	-	-
-	(19,769)	-	(19,769)	-	-
326,598	(1,800,032)	-	(1,800,032)	-	-
-	-	37,197	37,197	-	-
-	-	142,861	142,861	-	-
-	-	180,058	180,058	-	-
<u>\$ 326,598</u>	<u>(1,800,032)</u>	<u>180,058</u>	<u>(1,619,974)</u>	-	-
-	-	-	-	(105,346)	-
-	-	-	-	-	(24,057)
<u>\$ - 0 -</u>	-	-	-	(105,346)	(24,057)
	1,421,414	-	1,421,414	102,099	40,900
	616,154	-	616,154	-	-
	67,476	-	67,476	-	-
	86,566	63,515	150,081	1,014	1,354
	2,191,610	63,515	2,255,125	103,113	42,254
	391,578	243,573	635,151	(2,233)	18,197
	5,094,675	4,774,745	9,869,420	22,922	127,920
	\$ 5,486,253	\$ 5,018,318	\$ 10,504,571	\$ 20,689	\$ 146,117

## **Fund Financial Statements**

**City of Davison  
Balance Sheet  
Governmental Funds  
June 30, 2005**

	General	Major Street	Local Street	Nonmajor Governmental Funds	Totals
<b>Assets</b>					
Cash and cash equivalents	\$ 305,604	\$ 346,563	\$ 28,013	\$ 323,959	\$ 1,004,139
Investments	1,264,371	101,494	152,241	130,201	1,648,307
Receivables:					
Taxes	12,311	-	-	-	12,311
Accounts	17,297	-	-	-	17,297
Special assessments	-	-	3,945	-	3,945
Interest	6,694	693	1,040	-	8,427
Due from other funds	19,704	1,056	715	-	21,475
Due from other governmental units	625,251	54,942	14,022	-	694,215
Due from component units	61,725	-	-	-	61,725
Inventory	3,514	-	-	-	3,514
<b>Total assets</b>	<b>\$ 2,316,471</b>	<b>\$ 504,748</b>	<b>\$ 199,976</b>	<b>\$ 454,160</b>	<b>\$ 3,475,355</b>
<b>Liabilities</b>					
Accounts payable	\$ 221,134	\$ 691	\$ -	\$ -	\$ 221,825
Retainer payable	22,835	-	-	-	22,835
Accrued liabilities	107,790	915	71	-	108,776
Due to other funds	273,937	-	-	522	274,459
Due to other governments	148,271	-	-	2,132	150,403
Deferred revenue	138,763	-	3,945	-	142,708
<b>Total liabilities</b>	<b>912,730</b>	<b>1,606</b>	<b>4,016</b>	<b>2,654</b>	<b>921,006</b>
<b>Fund Balances</b>					
Reserved for:					
Inventory	3,514	-	-	-	3,514
Skate park	6,440	-	-	-	6,440
Disaster relief	1,000	-	-	-	1,000
Unreserved:					
Designated for subsequent years' expenditures	111,980	-	-	-	111,980
Unreserved, reported in:					
General fund	1,280,807	-	-	-	1,280,807
Debt service funds	-	-	-	-	-
Special revenue funds	-	503,142	195,960	451,506	1,150,608
Capital projects fund	-	-	-	-	-
<b>Total fund balances</b>	<b>1,403,741</b>	<b>503,142</b>	<b>195,960</b>	<b>451,506</b>	<b>2,554,349</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,316,471</b>	<b>\$ 504,748</b>	<b>\$ 199,976</b>	<b>\$ 454,160</b>	<b>\$ 3,475,355</b>

See notes to financial statements.



**City of Davison**  
**Reconciliation of the Fund Balance as Reported in the**  
**Governmental Balance Sheet to the Statement of Net Assets**  
**For the Year Ended June 30, 2005**

Total Governmental Funds Fund balance as reported in the Balance Sheet Governmental Funds	\$ 2,554,349
Amounts reported for governmental activities in the statement of net assets (page 10) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,699,393
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	142,708
Long term liabilities, including long term notes payable, are not due and payable in the current period, and therefore, are not reported in the funds.	(702,739)
Internal service funds are used by management to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets	<u>792,542</u>
Net Assets - Governmental Activities	<u><u>\$ 5,486,253</u></u>

*See notes to financial statements.*

**City of Davison**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Governmental Funds**  
**For the Year Ended June 30, 2005**

	General	Major Street	Local Street	Nonmajor Governmental Funds	Totals
<b>Revenues</b>					
Taxes	\$ 1,295,235	\$ -	\$ -	\$ 126,179	\$ 1,421,414
Special assessments	-	-	857	-	857
Licenses and permits	41,491	-	-	-	41,491
Intergovernmental revenue:					
Federal	-	-	-	79,658	79,658
State and local	984,269	267,106	86,679	-	1,338,054
Charges for services	93,719	-	-	190,025	283,744
Fines and forfeits	31,514	-	-	-	31,514
Interest income	61,270	7,283	2,329	7,007	77,889
Miscellaneous revenues	177,334	-	-	-	177,334
Total revenues	2,684,832	274,389	89,865	402,869	3,451,955
<b>Expenditures</b>					
Legislative	19,852	-	-	-	19,852
General governmental	324,368	-	-	-	324,368
Public safety	1,330,910	-	-	-	1,330,910
Public works	367,527	193,866	124,215	199,420	885,028
Recreation and cultural	691,202	-	-	-	691,202
Capital outlay	-	-	-	80,766	80,766
Debt service:					
Principal payments	-	-	-	220,000	220,000
Interest and fiscal charges	-	-	-	19,769	19,769
Total expenditures	2,733,859	193,866	124,215	519,955	3,571,895
Excess (deficiency) of revenues over expenditures	(49,027)	80,523	(34,350)	(117,086)	(119,940)
<b>Other financing sources (uses)</b>					
Transfers in	-	10,000	66,250	-	76,250
Transfers out	(35,500)	(56,250)	-	-	(91,750)
Total other financing sources (uses)	(35,500)	(46,250)	66,250	-	(15,500)
Net change in fund balances	(84,527)	34,273	31,900	(117,086)	(135,440)
Fund balances - beginning of year	1,488,268	468,869	164,060	568,592	2,689,789
Fund balances - end of year	\$ 1,403,741	\$ 503,142	\$ 195,960	\$ 451,506	\$ 2,554,349

See notes to financial statements.

**City of Davison**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2005**

Amounts reported for governmental activities in the statement of activities (pages 12-13) are different because:

Net Change in fund balances - total governmental funds (page 16)	\$ (135,440)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period	652,510
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(29,732)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items	(95,664)
Internal service funds are used by management to charge the costs of fleet management to individual funds. The net revenue of the internal service funds is reported with governmental activities.	(96)
Change in net assets of governmental activities (page 12)	\$ <u>391,578</u>

*See notes to financial statements.*

**City of Davison  
Statement of Net Assets  
Proprietary Funds  
June 30, 2005**

	<b>Business-type Activities- Enterprise Funds</b>			<b>Governmental Activities Internal Service Funds</b>
	<b>Sewer</b>	<b>Water</b>	<b>Totals</b>	
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 239,267	\$ 763,727	\$ 1,002,994	\$ 215,901
Investments	593,825	340,872	934,697	304,912
Accounts receivable	123,922	138,696	262,618	-
Accrued interest	2,377	-	2,377	-
Due from other funds	-	311,382	311,382	-
Inventory of supplies	-	19,981	19,981	-
<b>Total current assets</b>	<b>959,391</b>	<b>1,574,658</b>	<b>2,534,049</b>	<b>520,813</b>
<b>Noncurrent assets:</b>				
Restricted cash and cash equivalents	357,493	1,007,375	1,364,868	-
Bond issuance costs	-	27,518	27,518	-
<b>Capital assets:</b>				
Land	-	1,000	1,000	-
Buildings	-	139,395	139,395	-
Improvements other than buildings	2,302,354	8,895,522	11,197,876	-
Machinery and equipment	104,659	63,589	168,248	1,008,254
Accumulated depreciation	(1,691,824)	(1,462,653)	(3,154,477)	(733,460)
<b>Total capital assets, net</b>	<b>715,189</b>	<b>7,636,853</b>	<b>8,352,042</b>	<b>274,794</b>
<b>Total non current assets</b>	<b>1,072,682</b>	<b>8,671,746</b>	<b>9,744,428</b>	<b>274,794</b>
<b>Total assets</b>	<b>2,032,073</b>	<b>10,246,404</b>	<b>12,278,477</b>	<b>795,607</b>

See notes to financial statements.

	Business-type Activities- Enterprise Funds			Governmental Activities Internal Service Funds
	Sewer	Water	Totals	
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	\$ 18,712	\$ 3,867	\$ 22,579	\$ 2,743
Accrued liabilities	339	1,648	1,987	322
Payable from restricted assets:				
Water meter deposits	-	3,560	3,560	-
Bonds payable - current	-	310,000	310,000	-
Due to other funds	47,206	-	47,206	-
Retainer payable	-	174,846	174,846	-
Total current liabilities	66,257	493,921	560,178	3,065
Noncurrent liabilities:				
Bonds payable	-	6,699,981	6,699,981	-
Total liabilities	66,257	7,193,902	7,260,159	3,065
<b>Net Assets</b>				
Invested in capital assets, net of related debt	715,189	626,872	1,342,061	274,794
Restricted for capital improvement	547,030	945,583	1,492,613	-
Unrestricted	703,597	1,480,047	2,183,644	517,748
Total net assets	\$ 1,965,816	\$ 3,052,502	\$ 5,018,318	\$ 792,542

**City of Davison**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2005**

	<b>Business-type Activities- Enterprise Funds</b>			<b>Governmental Activities- Internal Service Funds</b>
	<b>Sewer</b>	<b>Water</b>	<b>Totals</b>	
<b>Operating revenues:</b>				
Charges for services	\$ 716,358	\$ 859,962	\$ 1,576,320	\$ 233,656
<b>Operating expenses:</b>				
Sewage maintenance	25,693	-	25,693	-
Water Plant operations	-	12,029	12,029	-
Wages and benefits	202,809	350,958	553,767	78,681
Treatment fees	382,480	-	382,480	-
Supplies	15,905	46,816	62,721	43,126
Heat, light, power	631	35,916	36,547	-
Depreciation	13,274	100,712	113,986	91,195
Amortization	-	2,411	2,411	-
Equipment maintenance and repair	41,774	60,266	102,040	19,618
Building rent and maintenance	18,701	18,701	37,402	6,322
Insurance expense	2,900	2,900	5,800	18,988
Professional fees	6,500	5,607	12,107	-
Sampling	-	18,919	18,919	-
Miscellaneous	18,144	16,496	34,640	-
Total operating expenses	728,811	671,731	1,400,542	257,930
Operating income (loss)	(12,453)	188,231	175,778	(24,274)
<b>Nonoperating revenues (expenses):</b>				
Intergovernmental grant	-	8,175	8,175	-
Hydrant rentals	-	18,700	18,700	-
Tower rentals	-	21,002	21,002	-
Interest revenue	27,209	36,306	63,515	8,678
Miscellaneous	2,350	22,588	24,938	-
Interest expense and fiscal charges	-	(164,035)	(164,035)	-
Total nonoperating revenues (expenses)	29,559	(57,264)	(27,705)	8,678
Income (loss) before contributions and transfers	17,106	130,967	148,073	(15,596)
Capital contributions - tap fees	47,300	48,200	95,500	-
Transfers in	-	-	-	15,500
Changes in net assets	64,406	179,167	243,573	(96)
Net assets - beginning of year	1,901,410	2,873,335	4,774,745	792,638
Net assets - end of year	\$ 1,965,816	\$ 3,052,502	\$ 5,018,318	\$ 792,542

See notes to financial statements.

**City of Davison  
Statement of Cash Flows  
Proprietary Funds  
Year Ended June 30, 2005**

	<b>Enterprise Funds</b>			<b>Governmental Activities Internal Service Fund</b>
	<b>Sewer</b>	<b>Water</b>	<b>Total</b>	
<b>Cash flows from operating activities</b>				
Cash receipts from customers	\$ 675,276	\$ 836,263	\$ 1,511,539	\$ 233,656
Cash payments to suppliers	(531,973)	(475,393)	(1,007,366)	(115,512)
Cash payments to employees	(202,978)	(350,383)	(553,361)	(78,713)
Net cash provided by (used in) operating activities	(59,675)	10,487	(49,188)	39,431
<b>Cash flows from noncapital financing activities</b>				
Repayment of interfund receivables and payables	6,966	(252,345)	(245,379)	15,500
<b>Cash flows from capital and related financing activities</b>				
Acquisition of capital assets	(94,244)	(2,876,939)	(2,971,183)	(65,694)
Tap in revenue	47,300	48,200	95,500	-
Grant revenue	-	8,175	8,175	-
Proceeds on capital debt	-	2,696,111	2,696,111	-
Repayment of long-term debt	-	(165,000)	(165,000)	-
Interest paid on capital debt	-	(164,035)	(164,035)	-
Net cash used in capital and related related financing activities	(46,944)	(453,488)	(500,432)	(65,694)
<b>Cash flows from investing activities</b>				
Sale (purchase) of investments	(5,241)	1,124,353	1,119,112	(2,801)
Rentals and other miscellaneous charges	2,350	62,290	64,640	-
Interest earned	24,832	36,306	61,138	8,678
Net cash provided by investing activities	21,941	1,222,949	1,244,890	5,877
Net increase (decrease) in cash	(77,712)	527,603	449,891	(4,886)
Cash and cash equivalents - beginning of year	674,472	1,243,499	1,917,971	220,787
<b>Cash and cash equivalents - end of year</b>	<b>\$ 596,760</b>	<b>\$ 1,771,102</b>	<b>\$ 2,367,862</b>	<b>\$ 215,901</b>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>				
Operating income (loss)	\$ (12,453)	\$ 188,231	\$ 175,778	\$ (24,274)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities -				
Depreciation and amortization	13,274	103,123	116,397	91,195
Changes in operating assets and liabilities:				
Accounts receivable	(41,082)	(26,112)	(67,194)	-
Accounts payable	(19,245)	(255,330)	(274,575)	(27,458)
Accrued liabilities	(169)	805	636	(32)
Water meter deposits	-	(230)	(230)	-
Net cash provided by (used in) operating activities	\$ (59,675)	\$ 10,487	\$ (49,188)	\$ 39,431

*See notes to financial statements.*

**City of Davison  
Statement of Assets and Liabilities  
Fiduciary Funds  
June 30, 2005**

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	<u>\$ 32,780</u>
Total assets	<u><u>\$ 32,780</u></u>
<b>Liabilities</b>	
Due to other funds	\$ 11,192
Due to other governments	<u>21,588</u>
Total liabilities	<u><u>\$ 32,780</u></u>



## **Notes to Basic Financial Statements**

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**I. Summary of significant accounting policies**

**A. Reporting entity**

The City of Davison was incorporated in 1939, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates a Council-Mayor form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City of Davison conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Principles used in determining the scope of the entity for financial reporting purposes:

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Davison (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

**Blended component units:**

**Component units** - In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

*Blended component units* - for financial reporting purposes, City of Davison Building Authority has been reported as if it were a part of this City's operations because:

- City has pledged its full faith and credit as a guarantee for the Authority's outstanding debt
- City is obligated to fund deficits of the Authority

**Davison Area Library**

- The City has entered into an agreement with the Township of Davison, the City of Davison, and Richfield Township to share the expenses of providing a library for the use of the residents of the three governmental units. The City of Davison maintains the accounting records for the library as a general fund activity center with the Townships of Davison and Richfield reimbursing the City for their share of the library expenses. The municipalities share the expenses of the library according to the following percentages: 35% by the City, 50% by Davison Township, and 15% by Richfield Township.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**I. Summary of significant accounting policies - (continued)**

**A. Reporting entity – (continued)**

Principles used in determining the scope of entity for financial reporting purposes: - (continued)

**Discretely presented component units:**

*Discretely presented component units* - The component units' columns in the combined financial statements include the financial data of the City's other component units. These units are reported in a separate column to emphasize that it is legally separate from the City.

Audited financial statements of each individual component unit are available at City offices.

**City of Davison Downtown Development Authority (DDA)**

- City appoints governing board
- City approves budget of DDA
- City must approve any tax levy of the DDA
- Surplus funds existing at termination of DDA vest to the City

**City of Davison Local Development Finance Authority (LDFA)**

- City appoints the governing board members
- City Council approves the budget of LDFA
- City must approve any tax increment financing plan
- Surplus funds existing at termination of LDFA vest to the City

The following organizations are not part of the City of Davison and are excluded from the accompanying financial statements for the reasons stated.

**Davison Richfield Area Fire Authority and Davison Richfield Senior Citizens Authority:**

- The above entities serve several communities outside of the City of Davison.
- The Authorities are joint ventures with the Township of Davison, the City of Davison, and Richfield Township financed primarily through service fees and/or contributions from the three municipalities.

The Davison Richfield Senior Citizens Authority and the Davison Richfield Area Fire Authority have a June 30 year end. Audited financial statements of the authorities for the year ended June 30, 2005 are available for public inspection at the Authority's headquarters.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**I. Summary of significant accounting policies - (continued)**

**B. Government-wide and fund financial statements – (continued)**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**I. Summary of significant accounting policies - (continued)**

**C. Measurement focus, basis of accounting, and financial statement presentation – (continued)**

The government reports the following major governmental funds:

General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major and Local Street Funds account for the City's share of proceeds from gas and weight taxes levied by the State and distributed to local governmental units. State law requires that these taxes be used for street maintenance and construction. The City of Davison has decided to show these funds as major governmental funds.

The government reports the following major proprietary funds:

The Water Supply and Sewer Disposal System is a division of the City's Department of Public Work. Separate funds are maintained for the operations of the water distribution system and sewage pumping and collection system.

Additionally, the government reports the following fund types:

Internal service funds account for fleet management services provided to other departments or agencies of the government, or to other governments on a cost reimbursement basis.

Agency Funds account for assets held by the City as an agent for individuals, private organizations and other governments.

Agency funds are reported as fiduciary funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and interest income.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**I. Summary of significant accounting policies - (continued)**

**C. Measurement focus, basis of accounting, and financial statement presentation – (continued)**

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Assets, liabilities, and net assets or equity**

**1. Deposits**

The City and its component unit has classified all checking and savings accounts as cash and cash equivalents.

The City and its component unit considers all highly liquid investments (including restricted assets) with a maturity of three months or more when purchased to be investments.

**2. Investments:**

Investments for the City, as well as for its component units, are stated at fair value. Certificates of deposit with a maturity date of greater than three months at time of purchase are recorded as investments on the financial statements.

**3. Receivables and payables**

In general, outstanding balances between funds are reported as "due to/from other funds", activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade, notes, contracts, and property tax receivables are shown net of an allowance for uncollectibles. No allowance has been recorded as management deems all receivables to be collectible.

**4. Inventories and prepaid items**

All inventories are valued at the lower of cost or market using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**I. Summary of significant accounting policies - (continued)**

**D. Assets, liabilities, and net assets or equity -- (continued)**

**5. Restricted assets**

These assets are restricted through bond agreements.

Restricted assets recorded in the Sewer Enterprise Fund and the Water Supply Enterprise Fund consist of amounts set aside as required by the Drinking Water Revolving Fund Revenue Bonds and the 2003A Refunding Bonds.

**6. Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

In accordance with accounting principles generally accepted in the United States of America, recorded infrastructure assets include only those acquired during the fiscal year ended June 30, 2004. Prior to the implementation of GASB No. 34, records on these assets were not maintained. The City is not required to retroactively determine costs and accumulated depreciation prior to July 1, 2003.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	39
Improvements other than buildings	39
Machinery and equipment	5-7
Infrastructure	39

**7. Deferred revenues**

Deferred revenues represent receipts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The City reported as deferred revenues the amount of \$3,945 in the Local Streets Special Revenue Fund, which relates directly to special assessments receivable. See footnote IV.B for details of a long-term rent receivable which has been shown as deferred revenue (\$138,763) in the General Fund.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**I. Summary of significant accounting policies - (continued)**

**D. Assets, liabilities, and net assets or equity – (continued)**

**8. Accumulated unpaid vacation and sick pay**

At June 30, 2005, unrecorded liabilities for salaried sick pay are zero since any unused sick days at June 30 have been paid to each employee (other than police department and DPW employees), at 1/2 of their unused days. (Note - Police employees are permitted to carryover a maximum of twenty-nine (29) sick days and 120 hours of vacation. Police employees are only paid for these sick days upon normal or disability retirement and termination. This liability is accrued in the government wide financial statements once it is anticipated that the police employee will retire from the City.) These hours are paid to the police employee upon termination of employment from the City and have been accrued in the government-wide financial statements. The unrecorded liability for salaried vacation pay is nominal and has not been accrued at June 30, 2005. (Only five days may be carried over annually from December to December for employees other than police department employees.) The DPW is allowed to carry over 10 days of leave time. DPW employees are paid out upon retirement or death.

**9. Long-term obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**10. Fund equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**11. Property tax**

Property taxes attach as an enforceable lien on all taxable real and personal property as of December 1. Taxes are levied on the following July 1, are payable on August 31, and collected without penalty through September 30. The City bills and collects its own property taxes and also taxes for the county and several school districts within its jurisdiction. Collections and remittances of the county and school taxes are accounted for in the Current Tax Agency Fund. City property tax revenues are recognized as revenue in the fiscal year levied to the extent that they are measurable and available. Property tax administration fee revenue is recognized as revenue when received.



**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**I. Summary of significant accounting policies - (continued)**

**D. Assets, liabilities, and net assets or equity – (continued)**

**11. Property tax – (continued)**

The City is permitted by charter to levy up to \$13.5 (13.5 mills) per \$1,000 of taxable value for general governmental services. For the year ended June 30, 2005, the City levied \$12.8506 per \$1,000 for general governmental services. Included in the maximum levy is 1.5 mills, which is designated specifically for police protection. As of June 30, 2005, \$1.5 per \$1,000 of taxable value was being levied for police services. The City is permitted to levy unlimited amounts for payment of existing general long-term debt obligations. As of June 30, 2005, \$1.25 per \$1,000 of taxable value was being levied for long-term debt retirement.

In 1981, the City's Downtown Development Authority (DDA) entered into tax incremental financing agreements with the City, Genesee County, Genesee Intermediate Schools, and Davison Community Schools for a fifteen-year period. In 1997, this plan was renewed with all units of government except Davison Community Schools for an additional fifteen years. (Proposal A passed by Michigan taxpayers eliminated the school millage from the calculation of the mills to be used to compute the taxes on the increase in assessed value within the tax increment financing area that can be captured.) Also in 2000 the DDA Authority expanded its boundaries and adopted a new District 2 plan.

In 1997, a Local Development Financing Authority (LDFA) was created to continue for a thirty-year period. The main difference between the LDFA Act and the DDA Act is that the LDFA district services manufacturing areas and does not have to be contiguous property.

Each Authority's tax increment revenue is calculated by multiplying the millage (of all entities involved) times the captured taxable value (the difference between current taxable value and the initial assessed value). The initial assessed values were established in 1981 for the DDA District 1, 1996 for the expanded DDA District 2, and 1997 for the LDFA.

**II. Reconciliation of government-wide and fund financial statements**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund balance sheet includes a reconciliation between *fund balance -total governmental funds* and *net assets -governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Bonds payable	\$487,950
Compensated absences	39,151
Net pension obligations	<u>175,638</u>
Net adjustment to reduce <i>fund balance -total governmental funds</i> to arrive at <i>net assets -governmental activities</i>	<u>\$702,739</u>

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**II. Reconciliation of government-wide and fund financial statements – (continued)**

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances -total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated use-full lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay	\$679,999
Depreciation expense	<u>(27,489)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$652,510</u>

**III. Stewardship, compliance, and accountability**

**A. Budgetary information**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before the second Monday in May, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them, for the General and Special Revenue Funds. Informational summaries of projected revenues and expenditures are provided for all other City funds, as well as estimated total costs and proposed methods of financing all capital construction projects.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance and in accordance with Public Act 621 of 1978 of the State of Michigan. All funds' budgets are enacted on a total fund basis.
4. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) with the exception of the Special Revenue - Community Development Fund which is adopted on a project length basis.
5. Budget appropriations lapse at year end.
6. The original budget was not amended during the year to be in compliance with the City Charter and applicable state law.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**III. Stewardship, compliance, and accountability – (continued)**

**B. Budget and actual comparisons – grant/project length budgets**

	Revised Project (Grant) Length <u>Budget</u>	Project Funds Expended During <u>2005</u>	Total Project Funds Expended Through <u>6-30-05</u>	Unexpended Balance at <u>630-05</u>
Special Revenue Fund Type:				
Community Development Fund:				
01-03 Allocation	\$ 81,010	\$ 79,669	\$ 79,669	\$ 1,341
Total Community Development	\$ 81,010	\$ 79,669	\$ 79,669	\$ 1,341

**IV. Detailed notes on all funds**

**A. Deposits and investments**

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated seven banks for the deposits of it's funds.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the City had \$3,399,743 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the city evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**IV. Detailed notes on all funds – (continued)**

**B. Receivables**

Receivables as of year end for the City's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Governmental activities and fiduciary funds:

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Nonmajor Other Funds</u>	<u>Total</u>
Receivables:					
Interest and dividends	\$ 6,694	\$ 693	\$ 1,040	\$ -	\$ 8,427
Taxes	12,311	-	-	-	12,311
Accounts	17,297	-	-	-	17,297
Special assessment	-	-	3,945	-	3,945
Gross receivables	36,302	693	4,985	-	41,980
Less: allowance for uncollectibles	-	-	-	-	-
Net total receivables	<u>\$ 36,302</u>	<u>\$ 693</u>	<u>\$ 4,874</u>	<u>\$ -0-</u>	<u>\$ 41,980</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special Assessments not yet due (local streets)	\$ 3,945	\$ -
Long-term notes receivables (general fund)	138,763	-
Total deferred/unearned revenue for governmental funds	<u>\$142,708</u>	<u>\$ -0-</u>

Business type activities:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Receivables:			
Accounts	\$123,922	\$138,696	\$262,618
Accrued interest	2,377	-	2,377
Gross receivables	126,299	138,696	264,995
Less: allowance for uncollectibles	-	-	-
Net total receivables	<u>\$126,299</u>	<u>\$138,696</u>	<u>\$264,995</u>

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**IV. Detailed notes on all funds – (continued)**

**C. Capital assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

**Primary Government**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,350,302	\$167,950	\$ -	\$1,518,252
<b>Total capital assets, not being depreciated</b>	<u>1,350,302</u>	<u>167,950</u>	<u>-</u>	<u>1,518,252</u>
Capital assets, being depreciated:				
Buildings	1,239,230	-	-	1,239,230
Improvements other than buildings	648,712	-	-	648,712
Machinery and equipment	1,386,658	84,616	-	1,471,274
Infrastructure	46,301	493,989	-	540,290
<b>Total capital assets being depreciated</b>	<u>3,320,901</u>	<u>578,605</u>	<u>-</u>	<u>3,899,506</u>
Less accumulated depreciation for:				
Buildings	(710,888)	(15,096)	-	(725,984)
Improvements other than buildings	(556,221)	(3,303)	-	(559,524)
Machinery and equipment	(1,057,775)	(100,285)	-	(1,158,060)
Infrastructure	-	-	-	-
<b>Total accumulated depreciation</b>	<u>(2,324,884)</u>	<u>(118,684)</u>	<u>-</u>	<u>(2,443,568)</u>
<b>Total capital assets, being depreciated, net</b>	<u>996,017</u>	<u>459,921</u>	<u>-</u>	<u>1,455,938</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 2,346,319</u>	<u>\$ 627,871</u>	<u>\$ -0-</u>	<u>\$ 2,974,190</u>

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**IV. Detailed notes on all funds – (continued)**

**C. Capital assets – (continued)**

**Primary Government – (continued)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	3,419,686	2,876,939	(6,296,625)	-
Total capital assets, not being depreciated	3,420,686	2,876,939	(6,296,625)	1,000
Capital assets, being depreciated:				
Building	139,395	-	-	139,395
Systems	4,901,251	6,296,625	-	11,197,876
Machinery and equipment	146,404	94,244	(72,400)	168,248
Total capital assets, being depreciated	5,187,050	6,390,869	(72,400)	11,505,519
Less accumulated depreciation for:				
Buildings	(29,668)	(3,426)	-	(33,094)
Systems	(2,938,067)	(109,011)	-	(3,047,078)
Machinery and equipment	(145,156)	(1,549)	72,400	(74,305)
Total accumulated depreciation	(3,112,891)	(113,986)	72,400	(3,154,477)
Total capital assets, being depreciated, net	2,074,159	6,276,883	-	8,351,042
Business-type activities capital assets, net	\$5,494,845	\$9,153,822	\$(6,296,625)	\$8,352,042

Depreciation expense was charged to functions/programs of the primary government as follows:

**Governmental activities:**

**Current:**

General government	\$107,660
Public safety	1,595
Public works	4,884
Recreation and culture	4,545
Total depreciation expense – governmental activities	<u>\$118,684</u>

**Business-type activities:**

Sewer	\$ 13,274
Water	100,712
Total depreciation expense – Business-type activities	<u>\$113,986</u>

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**IV. Detailed notes on all funds – (continued)**

**C. Capital assets – (continued)**

Discretely presented component units:

Activity for the City of Davison Downtown Development Authority (DDA) for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Machinery and equipment	\$ 48,313	\$ -	\$ (17,203)	\$ 31,110
Totals, capital assets being depreciated	48,303	-	(17,203)	31,110
Less accumulated depreciation for:				
Machinery and equipment	(27,321)	(4,981)	11,096	(21,206)
Total accumulated depreciation	(27,321)	(4,981)	11,096	(21,206)
Total capital assets, being depreciated, net	20,992	(4,981)	(6,107)	9,904
Capital assets, net	\$ 20,992	\$ (4,981)	\$ (6,107)	\$ 9,904

**D. Interfund receivables, payables, and transfers**

The composition of interfund balances as of June 30, 2005 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Sewer	\$ 7,990
	Tax	11,192
	Community Development	522
Major Streets	General	1,056
Local Streets	General	715
Water	General	272,166
	Sewer	39,216
		<u>\$332,857</u>

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**IV. Detailed notes on all funds -- (continued)**

**D. Interfund receivables, payables, and transfers -- (continued)**

Due to/from primary government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
City of Davison General Fund	Davison Downtown Development Authority	\$ 56,245
General Fund	Davison Local Development Finance Authority	5,480
		<u>\$ 61,725</u>

	<u>Transfer In</u>				
	<u>Major Streets</u>	<u>Local Streets</u>	<u>Nonmajor Governmental</u>	<u>Internal Service Funds</u>	<u>Total</u>
Transfer out:					
General fund	\$ 10,000	\$ 10,000	\$ -	\$ 15,500	\$ 35,500
Major streets	-	56,250	-	-	56,250
Nonmajor governmental funds	-	-	-	-	-
Total transfers out	<u>\$ 10,000</u>	<u>\$ 66,250</u>	<u>\$ -0-</u>	<u>\$ 15,500</u>	<u>\$ 91,750</u>

Transfers between funds were primarily for operating purposes.

**E. Operating leases**

The DDA leases storage space located in the City under a lease agreement with the City. The lease may be terminated by either party after a 30-day notification period. The lease expenditure for the component unit and corresponding lease revenue for the City amounted to \$900 in the current year.

Future minimum payments required under the lease are as follows:

<u>Year Ending</u>	<u>Amount</u>
2006	\$ 900
2007	225
	<u>\$ 1,125</u>

The City also leases three copiers under a noncancelable lease agreement. The lease expenditure amounted to \$6,240 for the 2004-2005 fiscal year. Future minimum payments required under the lease are as follows:

<u>Year Ending</u>	<u>Amount</u>
2006	<u>\$ 6,240</u>



**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**IV. Detailed notes on all funds – (continued)**

**F. Long-term rent receivable**

The City entered into a long-term lease with the State of Michigan for space located at 300 North Main Street to be used as a Secretary of State office. This lease calls for an initial term (noncancelable) of ten years with two renewal options of five years each. The initial ten year term has been recorded in the General Fund as a receivable and deferred revenue. The rent will be received as detailed below:

<u>Fiscal Year Ending</u>	<u>Rent</u>
6/2006	\$ 29,735
6/2007	29,735
6/2008	29,735
6/2009	29,735
6/2010	19,823
	<u>\$138,763</u>

**G. Long-term debt**

The government issues bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Contractual agreements and installment purchase agreements are also general obligations of the government. All Michigan Municipal Bond Authority debt is secured by future State of Michigan Revenue Sharing payments the City is entitled to receive under state law. All revenue bonds are supported by the revenues generated from the operation of the respective facilities constructed. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

A summary of bond transactions for the year ended June 30, 2005, and the composition of the June 30, 2005, long-term debt balance follows:

	<u>Final Payment Due</u>	<u>Interest Rate or Range</u>	<u>Balance at June 30, 2004</u>	<u>Issuances (Retirements) During Year</u>	<u>Balance at June 30, 2005</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>						
Rising Street						
Land purchase	10/1/2019	4.88%	\$ -	\$ 167,950	\$167,950	\$ -
1996 Street Improvement	10/1/2005	4.0-4.8	240,000	(115,000)	125,000	100,000
1998 General Obligation						
Unlimited Tax Refunding						
Bonds	10/1/2006	3.9-4.25	300,000	(105,000)	195,000	125,000
Accumulated vacation						
and sick pay			30,762	8,389	39,151	-
net pension obligation			36,313	139,325	175,638	-
Total governmental activities			<u>\$607,075</u>	<u>\$ 95,664</u>	<u>\$702,739</u>	<u>\$225,000</u>

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**IV. Detailed notes on all funds – (continued)**

**G. Long-term debt – (continued)**

	<u>Final Payment Due</u>	<u>Interest Rate or Range</u>	<u>Balance at June 30, 2004</u>	<u>Issuances (Retirements) During Year</u>	<u>Balance at June 30, 2005</u>	<u>Due Within One Year</u>
<b>Business - type activities:</b>						
2003A Water Supply and Sewage Disposal System Revenue Refunding Bonds	9/2016	3.95%	\$ 640,000	\$ (40,000)	\$ 600,000	\$ 45,000
2003 Water Capital Improvement Bonds	10/1/2018	1.2-4.45	600,000	(30,000)	570,000	30,000
Drinking Water Revolving Loan Fund Debt	10/1/2024	2.5	3,238,870	2,601,111	5,839,981	235,000
<b>Total Business - type activities</b>			<u>\$4,478,870</u>	<u>\$2,531,111</u>	<u>\$7,009,981</u>	<u>\$310,000</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End June 30,</u>	<u>Governmental Activities</u>		<u>Business Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$225,000	\$ 15,313	\$ 310,000	\$ 160,246
2007	95,000	10,215	315,000	176,468
2008	-	8,196	325,000	167,890
2009	-	8,196	340,000	158,846
2010	-	8,196	345,000	149,401
2011-2015	-	40,979	1,920,000	588,652
2016-2020	167,950	40,979	1,865,000	312,431
2021-2025	-	-	1,589,981	86,200
<b>Total</b>	<u>\$487,950</u>	<u>\$132,074</u>	<u>\$7,009,981</u>	<u>\$1,800,134</u>

Interest is payable on all obligations semi-annually or annually. Principal is paid on an annual basis.

Total defeased debt still outstanding at June 30, 2005:

1987 Storm Drain Bonds	\$200,000
1995 Water Supply and Sewage Disposal System Revenue Bonds	<u>520,000</u>
	<u>\$720,000</u>

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**IV. Detailed notes on all funds – (continued)**

**G. Long-term debt – (continued)**

Act 279, Public Acts of State 1909, as amended, provides that net indebtedness of cities cannot exceed 10% of the real and personal property in the city. The legal debt limit as of June 30, 2005, is 10% of the 2004 Valuation of \$102,881,652 or \$10,288,165. There is \$920,000 of debt incurred by the City, which is not specifically exempt from this 10% limitation. The City may, therefore, incur up to \$9,368,165 of new debt subject to this limitation.

**V. Other information**

**A. Retirement plans and other post-employment benefits**

The City has two separate single-employer non-contributory defined benefit pension plans; the Public Works Pension Plan and the Non-Union Pension Plan. The City also participates in the Michigan Municipal Employees Retirement System (M.E.R.S.) which is an agent multi-employer public retirement system (PERS) that is administered by the State of Michigan for the Police, Police Command, and Police Dispatch/Secretaries Pension Plans. The three M.E.R.S. plans are all contributory defined benefit plans. The M.E.R.S. was organized pursuant to Act No. 427, Public Acts of 1984, as amended, and the Constitution of the State of Michigan. The City has no fiduciary responsibility for the M.E.R.S. plan. M.E.R.S. issues a publicly available financial report that includes financial statements and required supplementary information for the system as a whole. Benefit provisions and contribution obligations have been established by the City Council. Effective July 1, 2005, the Public Works Pension Plan will be moving to M.E.R.S. M.E.R.S. issues a publicly available financial report that includes the applicable financial statements and required supplementary information. The report may be obtained by writing to M.E.R.S. 1134 Municipal Way, Lansing, Michigan 48917.

**Police patrol pension plan:**

All full-time police patrol employees, who are a member of a class of employees covered by a collective bargaining agreement between City of Davison and a union representing its police employees, are eligible to participate in the M.E.R.S. police patrol pension plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of December 31, 2004, the most recent valuation, there were eight active plan members, one retiree and beneficiaries receiving benefits, and zero terminated plan members not yet receiving benefits.

Per union contract all participants must contribute four point three percent (4.30%) of their base rate of pay to M.E.R.S. The balance in each participant's voluntary contribution account shall be fully vested at all times and shall not be subject to forfeiture for any reason.

The plan provides retirement, death and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement at age 50 with 25 years of service.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**V. Other information – (continued)**

**A. Retirement plans and other post-employment benefits – (continued)**

**Police command pension plan:**

All full-time police department command officers are eligible to participate in the M.E.R.S. police command pension plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of December 31, 2004, the most recent valuation, there were two active plan members, zero retirees and beneficiaries receiving benefits, and zero terminated plan members not yet receiving benefits.

Participants must contribute three percent (3%) of their base rate of pay to M.E.R.S. The balance in each participant's voluntary contribution account shall be fully vested at all times and shall not be subject to forfeiture for any reason.

The plan provides retirement, death, and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement at age 50 with 25 years of service.

**Police dispatchers/secretaries pension plan:**

All full-time police department dispatchers/secretaries are eligible to participate in the M.E.R.S. police dispatchers/secretaries pension plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of December 31, 2004, the most recent valuation, there were one active plan member, one retiree and beneficiaries receiving benefits, and zero terminated plan members not yet receiving benefits.

Per union contract participants must contribute three percent (3%) of their base rate of pay to M.E.R.S. The balance in each participant's voluntary contribution account shall be fully vested at all times and shall not be subject to forfeiture for any reason.

The plan provides retirement, death, and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 6 years of service. Participants may elect normal retirement at age 50 with 25 years of service.

**Public works pension plan:**

All full-time public works employees are eligible to participate in the plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of July 1, 2004, the most recent valuation, there were 8 active plan members, zero retirees and beneficiaries receiving benefits, and 0 terminated plan members not yet receiving benefits.

The plan does not require nor does it permit employee contributions.

The plan provides retirement, death and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement at age 55 or with 30 years of service.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**V. Other information – (continued)**

**A. Retirement plans and other post-employment benefits – (continued)**

**Non-union pension plan:**

All full-time non-union employees are eligible to participate in the plan effective on the plan anniversary date (July 1) immediately following their hire-in date. As of July 1, 2004, the most recent valuation, there were 10 active plan members, zero retirees and beneficiaries receiving benefits and 1 terminated plan member not yet receiving benefits.

The plan does not require nor does it permit employee contributions.

The plan provides retirement, death and disability benefits to plan members and their beneficiaries.

The plan provides for vesting of benefits after 5 years of service. Participants may elect normal retirement at age 60 or after 5 years of service, whichever is later. The plan also provides for early retirement at age 55 with 15 years of service.

**Funding method and assumptions:**

The terms of the plans require that the City shall make contributions of at least as great as the amount certified by the plan's actuary as the amount necessary to keep the plan in full force. The employer contributions ranged from 12.25% to 28.35% of covered payroll for the M.E.R.S. plans.

	<u>DPW</u>	<u>Non-Union</u>	<u>Police</u>	<u>Police Command</u>	<u>Police Dispatch/ Secretaries</u>
Annual Required Contribution (ARC)	\$206,965	\$180,177	\$ 63,029	\$ 20,892	\$ 9,526
Interest on NPO	2,360	(12,765)	-	-	-
Adjustment to APC	-	-	-	-	-
Annual Pension Contribution (APC)	209,325	167,412	63,029	20,892	9,526
Contributions Made	(70,000)	(104,716)	(63,029)	(20,892)	(9,526)
Increase in Net Pension Obligation (NPO)	139,325	62,696	-	-	-
Net Pension (overpayment) underpayment - beginning of year	36,313	(385,101)	-	-	-
Net Pension (overpayment) underpayment – end of year	<u>\$175,638</u>	<u>\$ (322,405)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Actuarial valuation date	7/1/04	7/1/04	12/31/04	12/31/04	12/31/04
Actuarial cost method	Aggregate	Aggregate	Entry age	Entry age	Entry age
Amortization method	Level \$	Level \$	Level %	Level %	Level %
Remaining amortization period (weighted)	19 years	22 years	31 years	31 years	31 years
Asset valuation method	Market	Market	Market	Market	Market
Actuarial assumptions					
Investment rate of return	6.5%	6.5%	8.0%	8.0%	8.0%
Projected salary increase	5.0	5.0	4.5	4.5	4.5

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**V. Other information – (continued)**

**A. Retirement plans and other post-employment benefits – (continued)**

**Annual pension costs**

Three year trend information regarding the annual pension costs (APC), percentage of APC contributed, and net pension obligation (NPO) are summarized by plan as follows:

	Plan Year End	Actuarial Valuation Date	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation (Overpayment) NPO
<u>DPW</u>					
	6/30/05	7/1/04	\$209,325	33.00	\$175,638
	6/30/04	7/1/03	182,762	66.00	36,313
	6/30/03	7/1/02	163,344	0.00	(14,570)
	6/30/02	7/1/01	-	100.00	(166,300)
<u>Non-Union</u>					
	6/30/05	7/1/04	167,406	63.00	(322,405)
	6/30/04	7/1/03	161,282	93.00	(385,101)
	6/30/03	7/1/02	146,201	269.19	(412,534)
	6/30/02	7/1/01	107,456	223.35	(196,383)
<u>Police</u>					
	6/30/05	12/31/04	63,029	100.00	-
	6/30/04	12/31/03	72,613	100.00	-
	6/30/03	12/31/02	64,310	100.00	-
	6/30/02	12/31/01	61,836	100.00	-
<u>Police Command</u>					
	6/30/05	12/31/04	20,892	100.00	-
	6/30/04	12/31/03	19,582	100.00	-
	6/30/03	12/31/02	17,603	100.00	-
	6/30/02	12/31/01	16,800	100.00	-
<u>Police Dispatchers/Secretaries Pension Plan</u>					
	6/30/05	12/31/04	9,526	100.00	-
	6/30/04	12/31/03	7,324	100.00	-
	6/30/03	12/31/02	9,537	100.00	-
	6/30/02	12/31/01	11,388	100.00	-

**Post retirement benefits**

The City provides post retirement benefits (health, dental, and optical) to all City retirees. (Effective July 1, 1992, a surviving spouse may continue in the retiree segment if he or she is eligible to assume pension benefits.) During the current year, 12 retirees received benefits. The total cost for these benefits for 2005 was \$121,309. The City pays for 100% of these costs as incurred and provides no funding for them as they are earned. There is no provision for employee contributions.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**V. Other information – (continued)**

**B. Deferred compensation plan**

The City offers its employees a Deferred Compensation Plan created in accordance with IRC Section 457. The plan, available to substantially all City employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseen emergency.

The law allows trusts to be created for the plan assets, thereby, insulating the assets from the City's general creditors. The City's plan administrator created the trust and placed the assets of the plan within the trust. As a result, the plans assets are not shown on the financial statements to reflect that the City has no fiduciary or administrative responsibility for this plan.

**C. Building department revenues and expenditures**

The State Construction Code Act, Michigan Public Act 245 of 1999, and rules promulgated by the Department of Treasury regarding that Act, require that a local unit's fees collected from construction code permits be accounted for in a method which shows that all of these fees were used for expenditures related to the operation of the enforcing agency. The rules indicated that if the revenues exceeded the expenditures, the fees collected must be kept in a separate fund with all the revenues and expenditures accounted for in that fund. These rules allowed for monitoring these funds in a separate activity center within the General Fund if the expenditures would normally exceed the revenues. The City chose the latter because historically, the expenditures have exceeded revenues. The activity related to construction code activity for the year ended June 30, 2005 is as follows:

Revenues – building permits	\$ 39,493
Less: Expenditures	<u>(117,324)</u>
Excess expenditures over revenues	<u>\$ (77,831)</u>

**D. Summary disclosures of significant contingent liabilities**

**Federal, state, and local grants:**

The City participates in a number of federally, state, and locally assisted grant programs, principally of which is the federally funded Community Development Block Grant and Drinking Water Revolving Loan Fund. The programs are subject to compliance audits. In accordance with the Single Audit Act of 1984, compliance audits of federal grants were made during the current year and have been reported under a separate cover. However, specific grantors have yet to make final approval of the compliance audits. The amount, if any, of expenditures which may be disallowed by the grant agencies, cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**V. Other information – (continued)**

**E. Risk management**

Risk Management - primary government:

The City is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries. The City has purchased commercial insurance for coverage of all claims. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**F. Joint ventures**

1. In April 1979, the City of Davison entered into a joint venture with the Township of Davison to create a Senior Citizens Authority. Richfield Township entered into the joint venture on July 1, 1996. The purpose of the Authority is to provide facilities for recreation and activities for senior citizens residing in the City and Townships. The Authority is governed by a seven member board appointed by the governing bodies of the City, Township, and Richfield Township. The seven member board is made up of two members from each municipality and the seventh member will be appointed alternately by the member municipalities. The agreement provides that the three municipalities will provide 1/3 of the net expenses, with the exception of utilities and insurance on the old center, which was applied against the City of Davison and Davison Township's portion of their expenses only. In the new building, all parties contributed to the cost of the center and share in its ownership on a percentage basis. All revenue from the new center is shared evenly. In addition, the board of the Authority is required to submit an annual operating budget to the governing body of each municipality for approval.

During the year ended June 30, 2005, the City's contribution to the Senior Citizens Authority was \$33,485. At year end, the City owed \$12,905 for Senior Center operations.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Audited financial statements are available for public inspection at Authority headquarters.

The following is a summary of selected financial information of the Senior Citizens Authority:

	<u>Year Ended</u> <u>June 30, 2005</u>
Total assets	\$1,391,178
Total liabilities	23,384
Total joint venture equity	1,367,794
Fund equity to be used for specific purposes	584
Total revenues	129,999
Total expenditures	141,168

The City of Davison's interest in the Authority's net assets as of June 30, 2005, was \$455,736. However, the majority of the Senior Citizens Authority's assets were purchased with federal funds so any income from the sale of these assets would revert to the federal agency.



**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**V. Other information – (continued)**

**F. Joint ventures – (continued)**

2. In January 1972, the City of Davison entered into a joint venture with Davison Township and Richfield Township to create the Davison Richfield Area Fire Authority. The purpose of the Authority is to provide uniform and orderly control of fire protection, fire department practices and organizations, and financing within the territorial limits of the three municipalities. The Authority is governed by a seven member board appointed by the governing bodies of the City and Townships. The agreement calls for each municipality to pay for each fire run to a point within its jurisdictional boundary.

During the year ended June 30, 2005, the City was billed \$93,551 by the Authority. At year end, the City owed \$26,924 to the Authority for fire run services.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Audited financial statements are available for public inspection at Authority headquarters.

The following is a summary of selected financial information of the Fire Authority:

	<u>Year Ended</u> <u>June 30, 2005</u>
Total assets	\$2,624,787
Total liabilities	68,215
Total joint venture equity	2,556,752
Total revenues	585,409
Total expenditures	453,716
Operating subsidy from City	119,383

**G. Commitments**

**Trash collection:**

The City has entered into a non-cancelable three year contract for trash collection beginning July 1, 2005. The rates in the contract increase by year. Future special assessments paid by residents will cover the costs of the contractual commitment.

**Construction:**

The City has an active construction project at year end with contractors as follows:

	<u>Spent to</u> <u>Date</u>	<u>Remaining</u> <u>Commitment</u>
Davison Trailway	\$320,491	\$136,205

**City of Davison**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**V. Other information – (continued)**

**H. Net asset**

The fund balance of the Sewer and Water Fund at June 30, 2004 has been restated to correct an error. The adjustment reflects revenues that should have been recognized at June 30, 2004.

	<u>Sewer</u>	<u>Water</u>
Fund balance at June 30, 2004, as previously reported	\$1,860,359	\$2,811,860
Adjustment to recognize revenue	<u>41,051</u>	<u>61,475</u>
Fund balance at June 30, 2004, as restated	<u>\$1,901,410</u>	<u>\$2,873,335</u>

**I. Upcoming reporting change**

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009. Management is currently assessing the impact of this new accounting standard on the City's financial statement for future reporting periods.

## **Required Supplementary Information**

**City of Davison**  
**Required Supplementary Information**  
**Analysis of Funding Progress**

<u>Plan Year End</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability Entry Age (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as % of Covered Payroll (b-a)/c)</u>
<b><u>DPW Pension Plan:</u></b>							
6/30/05	7/1/04	\$1,050,449	\$1,947,222	\$896,773	53.95%	\$349,082	256.89%
6/30/04	7/1/03	870,097	1,686,473	816,376	51.59	312,025	197.54
6/30/03	7/1/02	860,630	1,521,348	660,718	56.57	312,140	211.67
6/30/02	7/1/01	1,272,643	1,441,224	168,581	88.30	272,942	61.76
<b><u>Non-Union Pension Plan:</u></b>							
6/30/05	7/1/04	247,097	827,175	580,078	29.87	373,317	155.38
6/30/04	7/1/03	108,021	620,864	512,843	17.40	335,152	153.02
6/30/03	7/1/02	393,545	855,859	462,314	45.98	331,364	139.52
6/30/02	7/1/01	1,009,142	1,083,213	74,071	93.16	271,146	27.32
<b><u>Police Patrol Pension Plan:</u></b>							
6/30/05	12/31/04	1,480,282	2,068,065	587,783	71.58	471,580	124.64
6/30/04	12/31/03	1,321,374	1,803,629	482,255	73.3	527,019	91.50
6/30/03	12/31/02	1,113,840	1,639,049	525,209	68.00	477,389	110.04
6/30/02	12/31/01	980,875	1,509,718	528,843	63.00	449,409	117.68
<b><u>Police Command Pension Plan:</u></b>							
6/30/05	12/31/04	283,826	448,305	164,479	63.31	140,049	117.44
6/30/04	12/31/03	240,474	386,378	145,904	62.20	138,582	105.30
6/30/03	12/31/02	195,214	320,868	125,654	60.80	127,187	98.79
6/30/02	12/31/01	163,879	273,852	109,973	59.80	121,565	90.47
<b><u>Police Dispatchers/Secretaries Pension Plan:</u></b>							
6/30/05	12/31/04	128,384	295,091	166,707	43.50	32,932	506.22
6/30/04	12.30/13	125,825	249,679	123,853	50.40	43,931	282.00
6/30/03	12/31/02	122,701	234,019	111,318	52.40	50,125	222.08
6/30/02	12/31/01	121,579	211,695	90,116	57.40	57,422	156.94

**City of Davison**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
<b>Revenues</b>				
Taxes	\$ 1,288,534	\$ 1,288,534	\$ 1,295,235	\$ 6,701
Licenses and permits	32,100	32,100	41,491	9,391
Intergovernmental revenue:				
State and local	686,622	686,622	984,269	297,647
Charges for services	88,000	88,000	93,719	5,719
Fines and forfeits	45,000	45,000	31,514	(13,486)
Interest income	26,200	26,200	61,270	35,070
Miscellaneous revenues	147,454	147,454	177,334	29,880
Total revenues	2,313,910	2,313,910	2,684,832	370,922
<b>Expenditures</b>				
Current:				
Legislative	24,800	24,800	19,852	4,948
General government:				
Executive expenses	127,792	127,792	127,524	268
Clerk	61,549	61,549	53,485	8,064
Treasurer	75,708	75,708	76,629	(921)
Election	8,500	8,500	8,022	478
Planning commission	5,950	5,950	2,062	3,888
Board of appeals	2,780	2,780	858	1,922
Administration expenses	356,151	356,151	354,916	1,235
Hall and grounds	75,893	75,893	72,856	3,037
Less reimbursement from:				
Local streets	(18,127)	(18,127)	(19,403)	1,276
Major streets	(18,127)	(18,127)	(19,403)	1,276
Water	(173,096)	(173,096)	(162,384)	(10,712)
Sewer	(173,096)	(173,096)	(162,384)	(10,712)
Equipment	(12,425)	(12,425)	(8,410)	(4,015)
Public safety:				
Police protection	1,164,649	1,164,649	1,101,334	63,315
Fire protection	143,700	143,700	112,252	31,448
Building and code enforcement	121,868	121,868	117,324	4,544
Public works:				
Public works	216,079	216,079	207,543	8,536
Street lighting	59,400	59,400	55,862	3,538
Public improvements	71,120	71,120	68,564	2,556
Sanitation	36,000	36,000	25,727	10,273
Off street parking	7,812	7,812	9,831	(2,019)
Recreation and culture:				
Senior citizens	34,000	34,000	28,924	5,076
Parks and recreation	163,421	163,421	606,282	(442,861)
Library	37,544	37,544	32,087	5,457
Community development	25,188	25,188	23,909	1,279
Total expenditures	2,425,033	2,425,033	2,733,859	(308,826)
Excess (deficiency) of revenues over expenditures	(111,123)	(111,123)	(49,027)	62,096

**City of Davison**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Other financing uses</b>				
Transfers out	(20,000)	(20,000)	(35,500)	(15,500)
Net change in fund balance	(131,123)	(131,123)	(84,527)	46,596
Fund balance - beginning of year	1,488,268	1,488,268	1,488,268	-
<b>Fund balance - end of year</b>	<b>\$ 1,357,145</b>	<b>\$ 1,357,145</b>	<b>\$ 1,403,741</b>	<b>\$ 46,596</b>

**City of Davison**  
**Budgetary Comparison Schedule**  
**Major Street Fund**  
**For the Year Ended June 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
<b>Revenues</b>				
Intergovernmental revenue:				
State	\$ 254,907	\$ 254,907	\$ 267,106	\$ 12,199
Interest income	3,700	3,700	7,283	3,583
Total revenues	258,607	258,607	274,389	15,782
<b>Expenditures</b>				
Current:				
Highways and streets	212,357	212,357	193,866	18,491
Total expenditures	212,357	212,357	193,866	18,491
Excess of revenues over expenditures	46,250	46,250	80,523	34,273
<b>Other financing sources (uses)</b>				
Transfers in	10,000	10,000	10,000	-
Transfers out	(56,250)	(56,250)	(56,250)	-
Total other financing sources (uses)	(46,250)	(46,250)	(46,250)	-
Net change in fund balance	-	-	34,273	34,273
Fund balance - beginning of year	468,869	468,869	468,869	-
<b>Fund balance - end of year</b>	<b>\$ 468,869</b>	<b>\$ 468,869</b>	<b>\$ 503,142</b>	<b>\$ 34,273</b>

**City of Davison**  
**Budgetary Comparison Schedule**  
**Local Street Fund**  
**For the Year Ended June 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
<b>Revenues</b>				
Special assessments	\$ -	\$ -	\$ 857	\$ 857
Intergovernmental revenue:				
State	89,162	89,162	86,679	(2,483)
Interest income	3,600	3,600	2,329	(1,271)
	<hr/>			
Total revenues	92,762	92,762	89,865	(2,897)
	<hr/>			
<b>Expenditures</b>				
Current:				
Highways and streets	159,012	159,012	124,215	34,797
	<hr/>			
Total expenditures	159,012	159,012	124,215	34,797
	<hr/>			
Excess (deficiency) of revenues over expenditures	(66,250)	(66,250)	(34,350)	31,900
	<hr/>			
<b>Other financing sources</b>				
Transfers in	66,250	66,250	66,250	-
	<hr/>			
Total other financing sources	66,250	66,250	66,250	-
	<hr/>			
Net change in fund balance	-	-	31,900	31,900
	<hr/>			
Fund balance - beginning of year	164,060	164,060	164,060	-
	<hr/>			
Fund balance - end of year	\$ 164,060	\$ 164,060	\$ 195,960	\$ 31,900
	<hr/>			



## **Combining Fund Statements and Fund Descriptions**

**City of Davison, Michigan  
Nonmajor Governmental Funds  
Summary Descriptions  
June 30, 2005**

**Special Revenue Funds**

The Community Development Fund – was established to account for the receipt and disbursements of grants received from Community Development Block Grants.

The Capital Improvement Fund – used to accumulate resources for the payment of sanitation expenditures.

**Debt Service Funds**

The 1998 General Obligation Bond Fund – was established to accumulate resources for the payment of storm improvement bonds.

The 1996 Street Improvement Bond Fund – was established to accumulate resources for the payment of street improvement bonds.

The Building Authority Bond Fund – was established to accumulate resources for the payment of building authority bonds.

**Capital Projects Funds**

The 1987 Storm Drain Improvement Fund – was established to account for storm drain improvements.

The 1996 Street Improvement Fund – was established to account for street improvements.

**City of Davison, Michigan  
Fiduciary Funds  
Summary Descriptions  
June 30, 2005**

**Agency Funds**

The Tax Collection Fund – is used to account for cash receipts and disbursements for property taxes levied.

**City of Davison  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2005**

	Special Revenue		1998 General Obligation Bonds	Debt Service 1996 Street Improvement
	Community Development	Capital Improvements		
<b>Assets</b>				
Cash and cash equivalents	\$ 522	\$ 11,621	\$ 117,937	\$ 132,076
Investments	-	-	130,201	-
Total assets	\$ 522	\$ 11,621	\$ 248,138	\$ 132,076
<b>Liabilities</b>				
Due to other funds	\$ 522	\$ -	\$ -	\$ -
Due to other governments	-	-	2,132	-
Total liabilities	522	-	2,132	-
<b>Fund Balances</b>				
Unreserved, undesignated	-	11,621	246,006	132,076
Total fund balances	-	11,621	246,006	132,076
Total liabilities and and fund balances	\$ 522	\$ 11,621	\$ 248,138	\$ 132,076

Building Authority Bonds	Capital Projects		Total
	1987 Storm Drain Improvements	1996 Street Improvements	
\$ 164	\$ 51,315	\$ 10,324	\$ 323,959
-	-	-	130,201
\$ 164	\$ 51,315	\$ 10,324	\$ 454,160
\$ -	\$ -	\$ -	\$ 522
-	-	-	2,132
-	-	-	2,654
164	51,315	10,324	451,506
164	51,315	10,324	451,506
\$ 164	\$ 51,315	\$ 10,324	\$ 454,160

**City of Davison**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2005**

	Special Revenue		1998 General Obligation Bonds
	Community Development	Capital Improvements	
<b>Revenues</b>			
Taxes	\$ -	\$ -	\$ -
Intergovernmental revenue:			
Federal	79,658	-	-
Charges for services	-	190,025	-
Interest income	11	1,316	2,449
Total revenues	79,669	191,341	2,449
<b>Expenditures</b>			
Current:			
Sanitation	-	199,420	-
Capital outlay	79,669	-	-
Debt service:			
Principal payments	-	-	105,000
Interest and fiscal charges	-	-	10,716
Total expenditures	79,669	199,420	115,716
Net change in fund balances	-	(8,079)	(113,267)
Fund balances - beginning of year	-	19,700	359,273
<b>Fund balances - end of year</b>	<b>\$ - 0 -</b>	<b>\$ 11,621</b>	<b>\$ 246,006</b>

Debt Service		Capital Projects			Total
1996 Street Improvement	Building Authority Bonds	1987 Storm Drain Improvements	1996 Street Improvements		
\$ 126,179	\$ -	\$ -	\$ -	\$ 126,179	
-	-	-	-	79,658	
-	-	-	-	190,025	
2,209	3	879	140	7,007	
128,388	3	879	140	402,869	
-	-	-	-	199,420	
-	-	1,097	-	80,766	
115,000	-	-	-	220,000	
9,053	-	-	-	19,769	
124,053	-	1,097	-	519,955	
4,335	3	(218)	140	(117,086)	
127,741	161	51,533	10,184	568,592	
\$ 132,076	\$ 164	\$ 51,315	\$ 10,324	\$ 451,506	

**City of Davison  
Budgetary Comparison Schedule  
Capital Improvement Fund  
For the Year Ended June 30, 2005**

<b>Capital Improvement</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Charges for services	\$ 189,420	\$ 189,420	\$ 190,025	\$ 605
Interest income	-	-	1,316	1,316
<b>Total revenues</b>	189,420	189,420	191,341	1,921
<b>Expenditures</b>				
Current:				
Sanitation	199,420	199,420	199,420	-
<b>Total expenditures</b>	199,420	199,420	199,420	-
<b>Net change in fund balances</b>	(10,000)	(10,000)	(8,079)	1,921
<b>Fund balances - beginning of year</b>	-	-	19,700	19,700
<b>Fund balances - end of year</b>	\$ (10,000)	\$ (10,000)	\$ 11,621	\$ 21,621



**City of Davison  
Statement of Assets and Liabilities  
Tax Collection Agency Fund  
June 30, 2005**

	<u><b>Tax Collection</b></u>
<b>Assets</b>	
Cash and cash equivalents	<u>\$ 32,780</u>
Total assets	<u><u>\$ 32,780</u></u>
<b>Liabilities</b>	
Due to other funds	\$ 11,192
Due to other governments	<u>21,588</u>
Total liabilities	<u><u>\$ 32,780</u></u>

**Federal Awards  
Supplemental Information**

**City of Davison**

**June 30, 2005**

## Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Audit Standards</i>	2
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	3-4
Schedule of Expenditures of Federal Awards	5
Schedule of Findings and Questioned Costs	6-7
Prior Year's Unresolved Findings	8

## Independent Auditors' Report

To the Honorable Mayor and the City Council  
City of Davison  
Genesee County, Michigan

We have audited the basic financial statements of the City of Davison for the year ended June 30, 2005, and have issued our report thereon dated September 21, 2005. Those basic financial statements are the responsibility of the management of the City of Davison. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City of Davison as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran PLLC*

September 21, 2005

Independent Auditors' Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Audit Standards*

To the Honorable Mayor and the City Council  
City of Davison  
Genesee County, Michigan

We have audited the financial statements of the City of Davison as of and for the year ended June 30, 2005, and have issued our report thereon dated September 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City of Davison's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal controls components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Davison's financial statements are free of material misstatement, we performed tests on its compliance with certain provisions of laws, regulations, contracts and grants, and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Council, management, and federal awarding agencies and pass-through entities, and is not intended for and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

September 21, 2005

Independent Auditors' Report on Compliance with Requirements Applicable  
to Each Major Program and Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Honorable Mayor and the City Council  
City of Davison  
Ypsilanti, Michigan

**Compliance**

We have audited the compliance of the City of Davison with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2005. The City of Davison's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Davison's management. Our responsibility is to express an opinion on the City of Davison's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Davison's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Davison's compliance with those requirements.

As described in item 05-1 in the accompanying schedule of findings and questioned costs, the City of Davison did not fully comply with the requirements regarding cash management that are applicable to its Drinking Water Revolving Loan Funds. Compliance with such requirement is necessary, in our opinion, for the City of Davison to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Davison complied, in all material respects, with the requirement referred to above that is applicable to its major federal program for the year ended June 30, 2005.

## Internal Control over Compliance

The management of the City of Davison is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Davison's internal control over compliance with requirements that could have direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operations of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Council, management, federal awarding agencies, and pass-through entities, and is not intended for and should not be used by anyone other than these specified parties

*Plante & Moran P.C.*  
September 21, 2005

**City of Davison**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2005**

<u>Federal Grantor</u>	<u>Federal CFDA Number</u>	<u>Accrued Expenditures for Year Ended 6-30-05</u>	<u>Current Year Receipts</u>	<u>Accrued or (Deferred) Revenue 6-30-05</u>
Environmental Protection Agency (EPA)				
Passed through State of Michigan:				
Drinking Water Revolving Loan Fund*	66.468	\$1,337,204	\$1,337,204	\$ -
Passed through Michigan Department of Environmental Quality:				
Wellhead Protection Grant Assistance	66.468	8,175	8,175	-
Total EPA		<u>1,345,379</u>	<u>1,345,379</u>	<u>-</u>
Department of Housing and Urban Development				
Passed through Genesee County:				
Community Development Block Grant Program 14.218		79,658	-	79,658
Department of Homeland Security				
Passed through State of Michigan:				
State Domestic Preparedness	97.004	79	79	-
Total federal awards		<u>\$1,425,116</u>	<u>\$1,345,458</u>	<u>\$ 79,658</u>

\* Denotes Major Program



**City of Davison**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2005**

**Part I**

Did the auditee expend more than \$25,000,000  
in federal awards during the fiscal year? ☐ Yes ☒ No

If direct support was received indicate federal agency None

**Part II – Financial Statements**

Type of auditor's report issued: Unqualified

Going concern explanatory paragraph included ☐ Yes ☒ No

Internal control over financial reporting:

Material weakness(es) identified? ☒ Yes ☐ No

Reportable condition(s) identified  
not considered to be material weaknesses? ☒ Yes ☐ None reported

Noncompliance material to financial statements  
noted? ☐ Yes ☒ No

Findings related to the financial statements reported in accordance with *Governmental Auditing Standards*: See  
Section II.

**Part III – Federal Programs**

Type of auditor's report issued on compliance  
for major programs: Qualified

Does the auditor's report include a statement  
that the auditee's financial statements include  
departments, agencies, or other organizational  
units expending greater than \$300,000 in Federal  
awards that have separate A-133 audits which are  
not included in this audit? ☐ Yes ☒ No

Dollar threshold used to distinguish  
between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee ☐ Yes ☒ No

Is a reportable condition disclosed for any major program? ☒ Yes ☐ No

(continued)

**City of Davison**  
**Schedule of Findings and Questioned Costs – (continued)**  
**Year Ended June 30, 2005**

**Part III – Federal Programs – (continued)**

Is any reportable condition reported as a material weakness? ☐ Yes ☒ No

Are any known questioned costs reported? ☐ Yes ☒ No

Was a Summary Schedule of Prior Audits Findings Prepared? ☒ Yes ☐ No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
66.468	Drinking Water Revolving Loan Fund

Findings relating to the financial statements reported in accordance with Governmental Auditing Standards that are considered to be reportable conditions:

**05-1 Posting of transactions**

During the year, several certificates of deposits matured and the principal and interest earned were rolled into new certificates of deposits. The interest rolled over was not recorded. We recommend that interest is recorded at the point a certificate of deposit is rolled over into a new certificate of deposit.

New sewer and water billing software was installed during February 2005, however, the monthly billings for February through June were not posted until the audit in September. Guidance on posting of the entries has been provided to staff and we believe the recording of billings will be completed monthly from this point forward.

The new utility billing software is a stand alone program and does not post to the general ledger. The City plans to purchase software that will be integrated. Until this occurs, we recommend that the outstanding receivable balance from the utility billing software be agreed to the general ledger balance. Any significant variances need to be investigated and corrected in the month they occur.

Findings and questioned costs relating to federal awards:

**05-2**

Criteria: Cash management

Condition: Retainage was drawn down and not remitted within federal guideline time frames.

Questioned costs: \$-0-

Context: Retainage was drawn down upon invoicing. It was not paid out to the vendors until months later.

Cause and effect: Retainage must be paid within a reasonable time after draw down.

Recommendation: Draw downs should only be made when vendor bills are available to be paid within a timely manner after the draw down is made.

Management

Response: Management was following state law regarding retainers. It allows for monies to be drawn down and maintained in an interest bearing account until remitted.

**City of Davison  
Prior Year's Unresolved Findings  
June 30, 2005**

04-1

**Criteria:** Cash management

**Condition:** Retainage was drawn down and not remitted within federal guideline time frames.

**Questioned costs:** \$-0-

**Context:** Retainage was drawn down upon invoicing. It was not paid out to the vendors until months later.

**Recommendation:** Retainage must be paid within a reasonable time after draw down.

**Management's response:** Management was following state law regarding retainers. It allows for monies to be drawn down and maintained in an interest bearing account until remitted.

**Status:** Client is still following state law and drew down retainage well in advance of payments in 2005. The finding is reported in the current year Schedule of Finding Questioned Costs.

December 5, 2005

To the Honorable Mayor and the City Council  
City of Davison  
Genesee County, Michigan

We have recently completed our audit of the financial statements of the City of Davison (City) for the year ended June 30, 2005. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the Mayor, City Council, and others within the Organization.

#### **Auditor's Responsibility under Generally Accepted Auditing Standards**

We conducted our audit of the financial statements of the City of Davison in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. The following paragraphs explain our responsibilities under those standards.

Management has the responsibility for adopting and accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help ensure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient, competent, evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

### **Auditor's Responsibility for Testing and Reporting on Internal Controls and Compliance with Laws and Regulations**

In the audit process, we gain an understanding of the internal control structure of an entity as well as the laws and regulations having a direct and material affect on the entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of company documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the entity's internal control structure or the entity's compliance with laws and regulations.

The limited purpose of these tests in a financial statement audit may not meet the needs of some users of auditors' reports who require additional information on internal controls and on compliance with laws and reporting on internal controls and compliance to supplement the financial statement audit's coverage of these areas. In accordance with regulatory requirements covering federal (awards) financial assistance, supplemental testing of and reporting on internal controls and compliance was performed. Nevertheless, even after performing and reporting the results of these additional tests of internal controls and compliance required by laws and regulations, some reasonable needs of report users still may be unmet. We may meet these needs by performing further tests of internal controls and compliance with laws and regulations in either of two ways:

1. Supplemental (or agreed-upon) procedures, or
2. Examination, resulting in an opinion

For the year ended June 30, 2005, we were not engaged nor did we perform the additional services listed in 1 and 2 above.

During the audit, we noted certain matters involving internal control and its operations that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions include matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City of Davison's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition that we believe to be a material weakness:

#### **Posting of Transactions**

During the year, several certificates of deposits matured and the principal and interest earned were rolled into new certificates of deposits. The interest rolled over was not recorded. We recommend that interest is recorded at the point a certificate of deposit is rolled over into a new certificate of deposit.

New sewer and water billing software was installed during February 2005, however, the monthly billings for February through June were not posted until the audit in September. Guidance on posting of the entries has been provided to staff and we believe the recording of billings will be completed monthly from this point forward.

The new utility billing software is a stand alone program and does not post to the general ledger. The City plans to purchase software that will be integrated. Until this occurs, we recommend that the outstanding receivable balance from the utility billing software be agreed to the general ledger balance. Any significant variances need to be investigated and corrected in the month they occur.

We also noted the following items for your consideration:

#### **Cash Drawer**

The cash register should have \$200 starting cash each day. It was noted during the audit, that small errors have occurred resulting in starting cash in the two drawers deviating from the \$200. We recommend that if the differences cannot be determined, the cash be adjusted back to \$200 and an expense account be established to track the overs and shorts.

#### **Interfund Payable and Receivables**

It was noted during the audit, upon transfer or payment of interfund transactions, they often were not recorded against the account they were originally recorded in. This resulted in a receivable and a payable which needed journal entries to clear (zero) out. We recommend that upon payment of any interfund transactions they be recorded to the same account they were originally established so the transaction properly zeros out.

Various interfund transfers were budgeted to charge for administrative expenses, however, the transfers were not made during the year. An audit adjustment was made to record the transactions at year end. We recommend all transfers be recorded and the cash transferred between funds during the fiscal year.

#### **Significant Accounting Policies**

Auditing standards call for us to inform you regarding the initial selection of, and change in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There were no significant

unusual transactions or controversial or significant emerging areas for which new accounting policies were needed.

### **Management Judgments and Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Auditing standards call for us to report to you on accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments. Further, we are expected to report to you about the process used by management in formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates. We noted no matters related to sensitive accounting estimates.

### **Audit Adjustments**

Auditing standards call for us to report to you significant audit adjustments that, in our judgment, may not have been detected except through the auditing procedures we performed. Significant adjustments were made to record various receivables, and the related revenues, payables, and related expenses.

Auditing standards also require us to inform you about uncorrected possible financial statement adjustments identified by us during the current engagement and pertaining to the latest period presented, which were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. There were no unrecorded adjustments as all proposed adjustments were posted to the financial statements.

### **Other Information in Documents Containing Audited Financial Statements**

When our audit report and the audited financial statements are included in a client document, we have a responsibility to read that document and consider whether anything therein is inconsistent with the information in the audited financial statements. It is our understanding that the audited financial statements are currently not expected to be included in any other document. As indicated above, the purpose is solely to consider whether the information is inconsistent with the audited financial statements. We will not audit any of the information outside the financial statements and cannot provide you with any assurance as to its accuracy.

### **Disagreements with Management**

In the process of conducting an audit, various matters will be discussed with management. In that process, significant differences of opinion may arise regarding the scope of the audit, the application of accounting principles, disclosures to be included in the City's financial statements, or the wording of our report. There were no disagreements with management over the application of accounting principles or the basis for management's judgments about accounting estimates. Additionally, there were no disagreements regarding the scope of the audit, disclosures to be included in the financial statements, or the wording of the auditor's report.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit. However, additional time was incurred during the 2005 audit to assist the City staff in recording monthly utility billings,

Honorable Mayor and the City Council  
City of Davison  
December 5, 2005  
Page 5

reconciliation of certificate of deposits to the general ledger, and reconciliation of interfund payables and receivables. Year end entries to record accounts payable and various receivables were not made until after the audit was in progress.

The actuarial valuation for the DPW and nonunion pension plans were not received until late November, delaying the preparation of the financial statements.

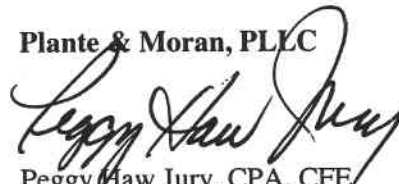
#### **Consultations with Other Independent Accountants**

When management consults with other accountants about significant accounting and auditing matters, auditing standards require that we present our views on those matters to you. To our knowledge, there were no such consultations with other accountants.

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

**Plante & Moran, PLLC**



Peggy Haw Jury, CPA, CFE  
Partner